CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

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49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-047
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Alicia Lauron, CPA	Auditor

AUDIT REPORT NUMBER

#09-047

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

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Janeane Bogner, President
Board of Directors
49th DAA, Lake County Fair
P.O. Box 70
Lakeport, California 95453-0070

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 49th District Agricultural Association (DAA), Lake County Fair, Lakeport, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 49th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 49th DAA, Lake County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 49th DAA, Lake County Fair has not presented the Management’s Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-047, on the 49th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 49th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford, CPA
Chief, Audit Office

May 22, 2009

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111-119	$ 121,904	$ 157,075
Accounts Receivable, Net	131-133	22,841	35,773
Construction in Progress	190	2,113	15,939
Land	191	240,662	240,662
Buildings and Improvements	192	1,912,702	1,954,888
Equipment, Net	193	2,906	5,813
TOTAL ASSETS		**2,303,128**	**2,410,150**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	211	1,089	897
Current Portion of Long-Term Debt	212.5	7,290	7,290
Payroll Liabilities	221-226	(3,007)	2,805
Deferred Income	228	2,370	71,608
Guaranteed Deposits	241	9,210	7,735
Compensated Absences Liability	245	30,474	27,393
Long Term Debt	250	280,322	298,936
Total Liabilities		**327,748**	**416,664**
Net Resources			
Reserve for Junior Livestock Auction	251	51,450	47,808
Net Resources - Operations	291	53,159	34,603
Net Resources - Capital Assets, less Related Debt	291.1	1,870,771	1,911,075
Total Net Resources Available		**1,975,380**	**1,993,486**
TOTAL LIABILITIES AND NET RESOURCES		**$ 2,303,128**	**$ 2,410,150**

See accompanying independent auditor's report and notes to the financial statements.

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 150,000	$ 150,000
Capital Project Reimbursement Funds	319	57,775	232,938
Other Capital Projects - F&E Funded	340	73,296	47,294
Admissions	410	137,293	142,198
Commercial Space	415	33,010	35,440
Carnival	421	72,986	71,306
Food Concessions	422	36,999	40,572
Exhibits Revenue	430	6,989	8,636
Horse Show Revenue	440	1,851	1,832
Attractions - Fairtime	460	54,177	51,472
Miscellaneous Fair	470	46,488	49,605
JLA Revenue	476	39,462	24,136
Non-Fair Revenue	480	97,678	96,558
Prior Year Adjustment	490	1,480	212
Other Revenue	495	18,093	7,541
Total Revenue		**827,576**	**959,740**
EXPENSES			
Administration	500	227,704	222,765
Maintenance and Operations	520	278,833	263,324
Publicity	540	19,161	18,611
Attendance	560	44,793	44,206
Miscellaneous Fair	570	7,486	6,593
JLA Expense	576	35,819	26,373
Premiums	580	18,623	21,045
Exhibits	630	42,880	41,089
Horse Show	640	3,536	3,707
Fairtime Attractions, Interim Attractions	660	56,320	86,714
Equipment	723	-	5,131
Prior Year Adjustments	800	(19,621)	239
Cash Over/Short from Ticket Sales	850	455	67
Depreciation Expense	900	129,693	124,502
Other Operating Expense	940	-	47,294
Total Expenses		**845,682**	**911,660**
RESOURCES			
Net Change - Income / (Loss)		(18,106)	48,080
Resources Available, January 1		1,993,486	1,945,406
Resources Available, December 31		**$ 1,975,380**	**$ 1,993,486**

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ (18,106)	$ 48,080
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	12,932	(25,982)
Increase (Decrease) in Accounts & Other Payables	192	344
Increase (Decrease) in Deferred Income	(69,238)	2,500
Increase (Decrease) in Miscellaneous Liabilities	(5,812)	90
Increase (Decrease) in Compensated Absence Liability	3,081	7,728
Increase (Decrease) in Guarantee Deposits	1,475	2,022
Total Adjustments	(57,370)	(13,298)
Net Cash Provided (Used) by Operating Activities	**(75,476)**	**34,782**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	13,826	25,000
(Increase) Decrease in Buildings & Improvements, Net	42,187	(400,651)
(Increase) Decrease in Equipment, Ne	2,906	2,906
Net Cash Provided (Used) by Investing Activities	**58,919**	**(372,744)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	(18,614)	257,018
Net Cash Provided (Used) by Financing Activities	**(18,614)**	**257,018**
NET INCREASE (DECREASE) IN CASH	**(35,171)**	**(80,944)**
Cash at Beginning of Year	157,075	238,019
CASH AT END OF YEAR	**$ 121,904**	**$ 157,075**

See accompanying independent auditor's report and notes to the financial statements.

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 49th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Lake County Fair each year in Lakeport, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	$ 100	$ 100
Cash in Bank - Operating	(18,172)	(20,973)
Cash in Bank – Public Funds	30,073	72,070
Cash in Bank – LAIF	109,903	105,878
Total Cash and Cash Equivalents	$ 121,904	$ 157,075

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 28,004	$ 42,243
Allowance for Doubtful Accounts	(5,163)	(6,470)
Accounts Receivable - Net	$ 22,841	$ 35,773

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	$ 3,724,574	$ 3,647,877
Less: Accumulated Depreciation	(1,811,872)	(1,692,989)
Building & Improvements - Net	$ 1,912,702	$ 1,954,888
Equipment	$ 101,751	$ 101,751
Less: Accumulated Depreciation	(98,845)	(95,938)
Equipment - Net	$ 2,906	$ 5,813

NOTE 6 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	$ 77,760
First Payment Date	March, 2003
Payment Amount	$ 608
Duration of Loan	128 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/08	$ 34,628
Current Portion at 12/31/08	$ 7,290
Long-Term Portion at 12/31/08	$ 27,338

In December 2007, CCA completed the Grandstand and Exhibit Building Photovoltaic Projects and the DAA recognized the loan term debt of $264,308 based on the CCA closed project reports. However, the Use Agreement from CCA reflects total amount financed of $329,962, which includes an estimated total soft cost of $65,653 to refinance the existing loans with National City Commercial Capital Corporation (NCCCC). CCA is working on refinancing the existing loans from NCCCC with an interest rate of 5.15% over 10 years by the issuance of the Clean Renewable Energy Bonds (CREB); thereby reducing the interest rate to 1.198% over 15 years. The DAA is making monthly loan payments of $2,004 based on a Proforma provided in 2008 by CCA as if CREB financing were in place. As of this date, efforts to find buyers for CREB have met with no success.

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 9 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 49th DAA Board of Directors
1	Chief Executive Officer, 49th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

MANAGEMENT REPORT #09-047

YEAR ENDED DECEMBER 31, 2008

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Alicia Lauron, CPA	Auditor

MANAGEMENT REPORT NUMBER
#09-047

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Janeane Bogner, President
Board of Directors
49th DAA, Lake County Fair
P.O. Box 70
Lakeport, California 95453-0070

In planning and performing our audit of the financial statements of the 49th District Agricultural Association (DAA), Lake County Fair, Lakeport, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Lake County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 49th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 49th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 49th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 49th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 49th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 49th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: payroll liabilities with debit balances, and CAL-Card expenditures. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 49th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

PAYROLL LIABILITIES WITH DEBIT BALANCES

The Fair did not reconcile payroll liabilities at year end. A review of the general ledger identified four payroll liability accounts with debit balances totaling $3,210, which the Fair could not identify. Generally accepted accounting procedures (GAAP) requires all liability accounts contain only credit balances. A debit balance could indicate either a posting error or an overpayment made by the fair. This was a prior year audit finding.

Recommendation

1. *The Fair should research and determine the cause for the debit balances of $3,210 currently existing within the payroll liability accounts. If necessary, an accounts receivable should be established for any overpayments made. In addition, prior to closing its accounting records at year-end, the Fair should review all accounts to ensure that they contain normal balances for that type of account. Any accounts that do not contain a normal balance should be researched for the cause and adjusted if necessary.*

CAL-CARD EXPENDITURES

The Fair charged travel related expenditures such as food and lodging during the Western Fairs Association Conference (WFA) with a State issued CAL-Card. According to the State Administrative Manual (SAM) Management Memo (MM) #04-06 dated January 26, 2005, the CAL-Card cannot be used for items such as State travel-related expenses. This includes travel-related per-diem expenses normally reimbursed to State employees on a Travel Expense Claim (TEC). Travel is defined as airline tickets, ground transportation, vehicle rentals, restaurants (meals) and lodging. This is a prior year audit finding.

Furthermore, cardholders did not always sign each CAL-Card statement acknowledging responsibility for expenditures before processing for payment. The CAL-Card manual requires the cardholder to sign the certification statement on the bottom of the last page of the CAL-card statement to ensure that transactions are correctly billed. This is a prior year audit finding.

Recommendations

2. *The Fair should comply with SAM MM#04-06 dated January 26, 2005, "CAL-Card: Purchasing Card Program" documenting CAL-Card purchasing limitations. Furthermore, travel related per diem expenses should be reimbursed on a travel expense claim submitted by the employee.*
3. *The Fair should follow the CAL-Card Program guidelines to ensure checks, balances and audit controls of all CAL-Card transactions. This process will mitigate the risk of paying incorrectly billed transactions.*

NON-REPORTABLE CONDITIONS

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not always complete the Employment Development Department (EDD) DE 542 form for independent contractors as required by State Senate Bill 542. The Fair is required to report to EDD within 20 days of paying or contracting for $600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either paying or contracting, whichever is earlier, for $600 or more in any calendar year, to avoid penalty for failure to comply within the required timeframe.

COMPENSATED LEAVE LIABILITY

The Fair did not correctly adjust Account #245, Compensated Leave Liability, to reflect the appropriate amount as compared to the employee leave balances at year end. Our audit determined that the liability for compensated absences was overstated by $2,210. According to the Division of Fairs & Expositions (F&E) Accounting Procedures Manual (APM), this balance should be updated annually prior to preparing the year-end financial records.

Recommendation

The Fair should review employee leave balances at year-end to ensure that account #245, Compensated Leave Liability, reflects the appropriate liability. This account should be adjusted annually.

ACCOUNTING FOR FIXED ASSETS

The Fair did not identify state property for all movable and/or sensitive items with a permanent stamp or with property identification tags. In accordance with F&E requirements, all property, regardless of whether capitalized or expensed, will be controlled, identified, and tagged.

Recommendation

All movable property or equipment must be permanently stamped, tagged or marked so it may be readily identified as belonging to the Fair. Choice of method depends on the character and volume of the asset.

DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE

LAKE COUNTY FAIR

49TH DISTRICT AGRICULTURAL ASSOCIATION

CDFA Audit Office
Ron Shackelford, Chief
1220 N Street
Suite A-454
Sacramento, CA 95814

Dear Mr. Shackelford:

The 49th DAA is in receipt of your audit findings for the recently concluded audit of the 2008 fiscal year.

With regard to the reportable conditions, fair staff is continuing to research the payroll liability accounts with debit balances and expects to reconcile all of the accounts by the end of the 2009 fiscal year. The fair also is endeavoring to comply with the Cal Card program recommendations, however, it should be noted that the recommendations were made nearly eight months into the 2009 fiscal year.

Thank you for the work on the 2008 audit.

Sincerely,

Richard Persons
Chief Executive Officer

Sincerely,

Janeane Bogner
Janeane Bogner
President

Cc: Fairs & Expositions

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 49th DAA, Lake County Fair, for their review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 4, 2009 and May 22, 2009. My staff met with management on May 21, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
Chief, Audit Office

May 22, 2009

REPORT DISTRIBUTION

Number	Recipient
1	President, 49th DAA Board of Directors
1	Chief Executive Officer, 49th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office